



# Australian Bureau of Statistics

## **6225.0.55.001 - Persons with Main Source of Income from Own Unincorporated Business, Experimental Estimates for Small Areas - Data Cubes, 1996-97 to 2003-04**

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## **Summary**

### **About this Release**

These data cubes contain regional experimental estimates of the number of persons whose main or principal source of income comes from their own unincorporated business(es). Estimates of the aggregated individual income (or 'take home pay') these persons receive from their own unincorporated business(es) and the total income they receive from all sources are also available in the data cubes.

The statistics have been compiled from the Australian Taxation Office's Individual Income Tax Return Database and are part of the ABS' program to increase the range of regional data available to users of regional statistics, particularly through the use of administrative information from other government agencies.

The estimates compiled to date are for the financial years 1996-97 to 2003-04 and should provide further insight about economic and employment activity in regions. The data are available for various levels of the Australian Standard Geographical Classification (ASGC) such as Statistical Local Areas (SLAs), Local Government Areas (LGAs), Statistical Subdivisions (SSDs) and Statistical Divisions (SDs).

## **Explanatory Notes**

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#### **EXPLANATORY NOTES**

#### **INTRODUCTION**

**1** These data cubes contain experimental statistics of the number of persons whose principal source of income is from own unincorporated business(es) (PSIOUB), their income from their own unincorporated business and their total income from all sources.

**2** These data are available for various levels of the Australian Standard Geographical Classification (ASGC) including statistical local areas (SLAs) and local government areas (LGAs), in each state and territory of Australia for the years 1996-97 to 2003-04. For the

years 2001-02 to 2003-04 data by sex (males, females) are also available.

**3** These data have been compiled from the Australian Taxation Office's (ATO) Individual Income Tax Return Database and are part of the Australian Bureau of Statistics' (ABS) program to increase the range of regional statistics available, particularly through the use of administrative information collected by other government agencies.

**4** The ABS wishes to acknowledge the support the ATO has provided in compiling these statistics and in assisting the ABS in its aim to increase the range of regional data available to users of regional statistics. Without such support the wide range of statistics published by the ABS would not be available.

**5** Further information on this series, including comparisons with selected ABS data, is detailed in **Information Paper: Persons with Main Source of Income from Own Unincorporated Business, Experimental Estimates for Small Areas, Australia, 1996-97 to 2003-04** (cat. no. 6225.0).

## **CONFIDENTIALITY**

**6** All individual income tax statistics provided to the ABS by the ATO have been in aggregated form only, at the SLA level. Information about individual taxpayers has not been released to the ABS.

**7** The statistics, prior to being provided to the ABS, have also been subjected to a confidentiality process that randomly adjusts cells in tables with small values. This includes altering some small cells to zero. Caution should therefore be exercised in deducing that there are no people in an area with certain characteristics and, in general, no reliance should be placed on cells with small values in tables. The application of this process prevents the risk of inadvertently releasing any information that may identify an individual while, for most purposes, the overall information value of the statistics have not been impaired.

## **SCOPE AND COVERAGE**

**8** The scope of the statistics presented in these data cubes relate only to persons whose principal (or main) source of income is from own unincorporated business (PSIOUB). These persons may also have other sources of income.

**9** PSIOUB have been defined as:

**persons aged 15 years and over who have submitted an Individual Income Tax Return and for whom income from their own unincorporated business, or businesses, was the principal (or main) source of their personal income for the financial year.**

**10** Own unincorporated business income has been defined as the total aggregated income

received from the following business-related data items as reported on the Individual Income Tax Return:

- net business income (or loss)
- distribution from partnerships
- distribution from trusts (primary production only), and
- net personal services income.

**11** Note: Refer to the Glossary for further information on these terms.

### **Distribution from trusts - primary production**

**12** For the purposes of defining PSIOUB, only distributions from trusts with primary production activity have been included under the broad assumption that these individuals were mainly involved in their own farm business. For tax purposes, primary production activity refers to production resulting directly from the cultivation of land; the maintenance of animals or poultry for the purpose of selling them or their bodily produce, including natural increase; fishing operations; forest operations and horticulture; and includes the manufacture of dairy produce by the person who produced the raw material used in that manufacture.

### **Distribution from trusts - non-primary production**

**13** Distributions from trusts for non-primary production activities have been excluded from the definition of PSIOUB as this includes income from a range of other activities, many of which do not relate to an individual working in their own business. Further investigation of trust data indicated that the majority of the distributions from non-primary production trusts were from investment products such as property trusts, cash management trusts, money market trusts, mortgage trusts and unit trusts.

## **DEFINING MAIN SOURCE OF INCOME**

**14** Own unincorporated business income is determined as the principal source of income when the income derived from this source (as defined in Explanatory Note 10) is greater than the income derived from each of the following other income groups:

- wage and salary (including allowances, earnings, tips and director's fees);
- Commonwealth of Australia government pensions, allowances and other payments;
- superannuation and annuities;
- investments (i.e. aggregate of gross interest, dividends, net rent and distributions from trusts - non-primary production); and
- other income (e.g. foreign source income).

**15** For example: A person reports the following income in their Individual Income Tax Return;

- \$10,000 wage and salary income

- \$7,000 distribution from partnerships - non-primary production
- \$5,000 personal services income (as a sole trader)
- \$2,000 dividends, and
- \$500 gross interest.

**16** Based on the above definitions, these would be grouped as follows to establish the principal source of income:

- \$10,000 wage and salary income
- \$12,000 own unincorporated business income (aggregate of \$7,000 distribution from partnerships - non-primary production and \$5,000 personal services income (as a sole trader)), and
- \$2,500 investment income (aggregate of \$2,000 dividends and \$500 gross interest).

**17** As the aggregate of income for the categories that make up own unincorporated business (\$12,000) is greater than the income for each of the other groups of income separately (\$10,000 wage and salary and \$2,500 investment income) the person is classified as deriving their principal source of personal income from their own unincorporated business.

## **STATISTICAL GEOGRAPHY**

**18** The Australian Standard Geographical Classification (ASGC) is used by the ABS for the collection and dissemination of geographically classified statistics. It is an essential reference for understanding and interpreting the geographical context of statistics published, not only by the ABS but also by other organisations, and its use enables comparability across datasets.

**19** The ABS uses geographic concordances to enable the conversion of data from one type of geographic region to another. These geographic concordances are generally used to convert data for 'non-standard areas' to data for standard areas used by the ABS. Geographic concordances (or conversions) are expressed as conversion factors based on population.

**20** The geographic identifier available on the ATO database is the postcode of the home address of the individual at the time of completing the tax return. Consequently, postcode to SLA conversion factors have been used to concord, or convert, ATO aggregated postcode data to estimates for statistical local areas. The concordances are based on the estimated resident population for each particular year.

**21** The concordance process:

- minimises confidentiality restrictions as data are not output for postcodes with small populations;
- enables the data to be more easily compared with standard ABS output;
- enables the data to be output for other standard ABS geographic areas such as Statistical Divisions, Statistical Subdivisions and LGAs; and
- provides flexibility so that data can be provided for the different regions of interest being studied by users of regional data (which are usually groupings of SLAs and/or

LGAs).

**22** When analysing concorded data the following limitations of this methodology need to be taken into account:

- in applying the concordances (based on total population only) it is assumed that the particular characteristics of any data item are uniformly distributed across a postcode area and therefore concorded data may not truly reflect the distribution of the characteristics of the population. In some cases, where the same postcode is split across two or more SLAs and there are no other contributing postcodes, distinct numerical estimates will be derived but rates or averages will be identical for each SLA (as these will be equivalent to the original rate or average of the contributing postcode);
- some official postcodes (such as PO boxes, etc.) do not correspond to residential areas but may still have been reported under the current home address field on the income tax return. Data for these and other 'invalid' postcodes, such as those due to incorrect reporting or processing errors, have been included in an 'unknown' category for each state and territory and for Australia where the state or territory was not known; and
- concorded figures have been rounded so discrepancies may occur between sums of the component items and totals.

**23** While care was taken in producing the concordances the ABS will not guarantee the accuracy of concorded data.

## DATA CONSIDERATIONS

**24** There are several data limitations that users should be aware of when analysing the data. Overall, these are not considered to be so severe that they would lead to the production of misleading information. As with any experimental series, readers are cautioned to be aware of these limitations and take them into account when analysing the results. Readers should also refer to **Information Paper: Persons with Main Source of Income from Own Unincorporated Business, Experimental Estimates for Small Areas, Australia, 1996-97 to 2003-04** (cat no 6225.0) for more information.

### Processing of tax returns

**25** The data presented in this publication, particularly for latter years, were compiled before the processing of all income tax returns for any given year may have been completed. The statistics for the years 1996-97 to 1999-00 were compiled from Individual Income Tax Returns processed up to 31 October 2002, data for 2000-01 were compiled from returns processed up to 31 October 2003, and data for 2001-02, 2002-03 and 2003-04 were compiled from returns processed up to 31 October 2005.

**26** The proportion of tax returns processed each year can vary, however data for the earlier years in this series (e.g. 1996-97 to 1998-99) are more complete than data for the latter years (e.g. 1999-00 to 2003-04) as more returns had been processed at the time the estimates were compiled. For example, data for 1998-99 include returns processed over a

40 month period after the end of the income tax year while data for 2003-04 include returns processed over a 16 month period).

**27** While the overall total of personal income from own unincorporated business for PSIOUB is not expected to be significantly effected by these timing issues, a greater impact may be evident for counts of persons. An analysis of annual revised data published by the ATO in **Taxation Statistics, 2003-04** for net business income as reported indicates that up to an additional 10% of persons with business income may lodge their income tax returns after the initial processing of returns (usually by the following October, or 15 months, after the income tax year).

**28** In general, caution should be exercised when making comparisons over time, particularly in respect to the number of persons whose principal source of income is derived from their own unincorporated business.

### **Exclusion of persons with distribution from trusts - non-primary production**

**29** The exclusion of persons with distribution from trusts - non-primary production from the definition of own unincorporated business will also result in slightly lower estimates of the number of persons with PSIOUB being recorded.

## **ROUNDING**

**30** The statistics have been rounded following the conversion of aggregated postcode data to estimates for SLAs. Accuracy to the last digit is not claimed and should not be assumed. Discrepancies may occur between the sums of the component items and totals. Proportions, rates and averages have been calculated on rounded figures.

## **FURTHER INFORMATION**

**31** For further information about these statistics, contact the National Information Service on ph: 1300 135 070.

# **Glossary**

## **GLOSSARY**

### **Average personal income derived from own unincorporated business(es)**

For persons with principal source of income from their own unincorporated business (as defined) - calculated by dividing total income received by individuals from their own unincorporated business by the number of persons receiving that income.

## **Business**

The ATO considers a person to have a business if the activity has actually commenced; has a significant commercial purpose or character; results in a profit; is carried out in a manner that is characteristic of the industry; is repeated, regular or continuous; cannot be more accurately described as a hobby.

## **Commonwealth of Australia government pensions, allowances and other payments**

Includes the following pensions, allowances and other payments received from the Australian government: parenting payment (partnered), Newstart allowance, youth allowance, mature age allowance, partner allowance, sickness allowance, special benefit, widow allowance, austudy payment, exceptional circumstances relief payment, restart income support or farm household support (by way of financial assistance), Aboriginal Study Assistance Scheme (ABSTUDY) living or dependent spouse allowance or payment under the Veterans' Children Education Scheme where the taxpayer is 16 years or older, Training for Employment Program allowance, New Enterprise Incentive Scheme allowance, textile, clothing and footwear special allowance, Green Corps training allowance, or other taxable Commonwealth education or training payments, an income support component from a Community Development Employment Project - shown as 'CDEP Salary or Wages' on the taxpayer's PAYG (Pay As You Go) payment summary - individual non business, a CDEP scheme participant supplement, age pension, bereavement allowance, carer payment, disability support pension where the taxpayer has reached age pension age, mature age partner allowance, parenting payment (single), widow B pension, wife pension, age service pension, income support supplement, invalidity service pension where the taxpayer has reached age pension age, partner service pension.

Note: Not all Commonwealth of Australia government pension and allowance recipients are required to lodge income tax returns.

## **Company**

A company is a legal entity separate from its shareholders. For tax purposes a company means a body or association, incorporated or unincorporated, but does not include a partnership or a non-entity venture.

## **Distribution from partnerships - primary and non-primary production**

The individual's share of the partnership's income or loss, less any attributed foreign income or foreign source income of the partnership(s) on which the taxpayer is assessed. Partnerships generally do not pay tax in their own right. Members of the partnership pay tax at their individual tax rate on their share of partnership income included on their individual tax return.

## **Distribution from trusts - primary production**

The individual's share of the trust's income or loss (for primary production), less any attributed foreign income or foreign source income of the trust on which the taxpayer is assessed, and the whole or part of a net capital gain of the trust on which the taxpayer is assessable. For the purposes of the statistics presented in this paper, distributions from trusts with primary production activity have been included under the broad assumption that these individuals were mainly involved in their own farm business.

### **Distribution from trusts - non-primary production**

The individual's share of the trust's income or loss (for non-primary production), less any attributed foreign income or foreign source income of the trust on which the taxpayer is assessed, and the whole or part of a net capital gain of the trust on which the taxpayer is assessable. Includes distributions from investment products such as property trusts, cash management trusts, money market trusts, mortgage trusts and unit trusts. For the purposes of the calculation of an individual's main source of income, distribution from trusts - non-primary production have been included under investment income.

### **Income tax year**

Refers to the financial year, i.e. 1 July to 30 June.

### **Incorporated enterprise**

An incorporated enterprise is a company that has a registered business name with the Australian Securities and Investment Commission and a legal status which is separate to that of the individuals involved.

### **Investment income**

Includes interest from financial institutions, net rent and dividends or distributions (including imputation credits) from an Australian company, corporate unit trust or public trading trust. Also included are distributions from trusts - non-primary production which mainly includes income from investments with cash management trusts, property trusts, money market trusts, mortgage trusts and unit trusts.

### **Net business income**

The amount of income (or loss) derived by the individual from primary and/or non-primary production business activities after deduction of relevant business expenses.

### **Net personal services income**

The net income received by persons, including contractors and consultants, as a reward for



their personal efforts or skills. It applies to persons receiving such income as a sole trader and is calculated by deducting operating expenses from the income generated by the business activity. Examples of personal services income include: income of a professional practitioner in a sole practice; income payable under a contract which is wholly or principally for the labour or services of a person; income derived by a professional sportsperson or entertainer from the exercise of professional skills; and income derived by consultants from the exercise of personal expertise.

### **Non-primary production**

Production other than that resulting from primary production activities. Non-primary production industries include all the other industries not classified under the 'Agriculture, forestry and fishing' broad industry group.

### **Other income**

Includes foreign source income and income not included elsewhere.

### **Own unincorporated business income**

The concept of individual income from own unincorporated business is a 'net concept'. That is, it is the profit (or loss) derived by deducting operating expenses from the value of gross output. It includes net business income from primary and non-primary production activities, distributions from primary production partnerships and trusts, distributions from non-primary production partnerships and net personal services income.

### **Partnership**

For tax purposes, a partnership is an association of people who carry on a business as partners or who receive income jointly. (Note: this does not include a company). Partners contribute their time, talents and/or capital towards the partnership and, in return, share in both the profits/losses and responsibilities. Partnerships generally do not pay tax in their own right. Members of the partnership pay tax at their individual tax rate on their share of partnership income included on their individual tax return.

### **Persons whose main source of income is from own unincorporated business**

Also known as PSIOUB. Persons aged 15 years and over who have submitted a tax return and for whom income from their own unincorporated business, or businesses, was the principal (or main) source of their personal income for the financial year.

### **Primary production**

Production resulting directly from the cultivation of land; the maintenance of animals or

poultry for the purpose of selling them or their bodily produce, including natural increase; fishing operations; forest operations and horticulture; and includes the manufacture of dairy produce by the person who produced the raw material used in that manufacture. Includes industries classified under the 'Agriculture, forestry and fishing' broad industry group.

### **Principal (or main) source of income**

The source from which the most income was received during the financial year.

### **Sole trader**

A sole trader is an individual who is trading on their own. That person controls and manages the business. The income of the business is treated as the person's individual income.

### **Superannuation and annuity income**

Includes superannuation and similar pensions and annuities paid by an Australian annuity income superannuation fund, a retirement savings account (RSA) provider, a registered organisation or life assurance company and pensions paid by a fund established for the benefit of commonwealth, state or territory employees and their dependants. Also included in this category are bonuses from life insurance companies and friendly societies.

### **Trust**

A trust is an obligation on a person to hold property or income for the benefit of others (i.e beneficiaries). Except in special circumstances, the beneficiary has to include their share of the trust's income in their personal income tax return.

### **Wage and salary earners**

Persons aged 15 years and over who have submitted a tax return and for whom wage and salary income was the principal or main source of income for the financial year.

### **Wage and salary income**

Includes gross income as shown on the 'PAYG payment summary - individual non-business' as well as allowances, commissions, bonuses, tips, gratuities, consultation fees, honoraria and other payments for services. Allowances and other earnings may include car, travel or transport allowances, allowances for tools, clothing or laundry and dirt, risk, meal or entertainment allowances, etc.

### **GEOGRAPHIC TERMS**

## **Local Government Area (LGA)**

The spatial unit which represents the whole geographical area of responsibility of an incorporated Local Government Council in any state or territory, an Aboriginal or Island Council in Queensland or a Community Government Council in the Northern Territory. The various types of LGAs are Aboriginal councils (AC), areas (A), boroughs (B), cities (C), community government councils (CGC), district councils (DC), island councils (IC), municipalities (M), regional councils (RegC), rural cities (RC), shires (S) and towns (T).

## **Statistical Local Area (SLA)**

These geographical areas are in most cases identical with, or have been formed from a division of, whole LGAs. In other cases, they represent unincorporated areas. In aggregate, SLAs cover the whole of a state or territory without gaps or overlaps. In some cases legal LGAs overlap Statistical Subdivision boundaries and therefore comprise two or three SLAs (Part A, Part B and, if necessary, Part C).

## **Statistical Subdivision (SSD)**

These are of intermediate size, between SLAs and SDs. In aggregate, they cover the whole of Australia without gaps or overlaps. They are defined as socially and economically homogeneous regions characterised by identifiable links between the inhabitants. In the non-urban areas an SSD is characterised by identifiable links between the economic units within the region, under the unifying influence of one or more major towns or cities.

## **Statistical Division (SD)**

These consist of one or more SSDs. The divisions are designed to be relatively homogeneous regions characterised by identifiable social and economic units within the region, under the unifying influence of one or more major towns or cities.